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Q4FY21 result review  
and reco change

## Plastics

Target price: Rs2,400

### Earnings revision

(%)	FY22E	FY23E
Sales	↓ 1.5	↓ 2.0
EBITDA	↑ 3.7	↑ 5.5
EPS	↑ 25.8	↑ 27.4

### Target price revision

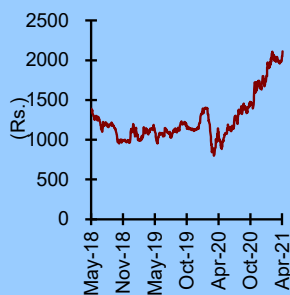
Rs2,400 from Rs2,005

### Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	48.9	48.9	48.9
Institutional investors	33.6	33.6	33.7
MFs and other	16.4	16.7	16.5
FIs/Banks	0.0	0.0	0.0
Insurance	0.0	0.0	0.2
FII	17.2	16.9	17.0
Others	17.5	17.6	17.4

Source: NSE

### Price chart



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INDIA

**ICICI Securities**

## Supreme Industries

**ADD**

Downgrade from BUY

**Rs2,109**

### Strong beat led by inventory gains

Supreme Industries (SIL) reported an all-time high EBITDA margin of 24.5% (I-Sec: 18.2%), up 540bps/270bps YoY/QoQ, largely driven by sharp inventory gains (Rs1bn in Q4FY21 and Rs2bn in FY21) on the back of steep increase in PVC prices. However, plastic piping volumes, which declined 1.7% YoY (due to sustained weakness in agriculture pipe segment and regional lockdowns post 20<sup>th</sup> Mar'21), were a key disappointment. Management guidance of 17% EBITDA margin for FY22 (on the back of increasing mix of VAPs, cost efficiencies and operating leverage) however came as a positive surprise. Strong operating performance for the quarter led to steep rise in core PAT at Rs3.8bn (I-Sec: Rs2.28bn), up 245% YoY. Also, higher share of Supreme Petrochem profits led to sharp surge in SIL's consolidated PAT at Rs4.5bn (I-Sec: Rs2.5bn), up 284% YoY. Downgrade to ADD due to the recent surge in stock price.

- Valuation and outlook:** Factoring-in the impressive Q4FY21 performance, we increase our PAT estimates by 25.9%/27.4% for FY22E/FY23E respectively. We now expect the company to report consolidated revenue and PAT CAGRs of 9.9% and 3.2% respectively over FY21-FY23E. We downgrade the stock to **ADD** (from **Buy**) with a revised SoTP-based target price of Rs2,400 (earlier: Rs2,005), valuing the core business at 35x FY23E earnings. Key risks: sharp fall in PVC resin prices, and slowdown in plumbing pipe demand.
- Revenues grew 45.7% YoY to Rs20.8bn (I-Sec: Rs19.7bn):** SIL reported 45.7% YoY growth in revenues to Rs20.8bn led by 7.8% / 37.7% YoY increase in volumes / realisation respectively. Company reported volume growth of -1.7% / 40.2% / 45.2% / 11.9% YoY in its plastic piping / packaging / industrial / consumer product segments respectively. VAP revenues grew 46.4% YoY. With sustained capex drive, traction in allied products and increase in its manufacturing footprint, we expect SIL to report 9.9% revenue CAGR over FY21-FY23E.
- EBITDA margin surprises positively at 24.5% (I-Sec: 18.2%):** SIL reported a beat in EBITDA margin at 24.5% (I-Sec: 18.2%), up 540bps YoY and 270bps QoQ. The beat was largely driven by: a) inventory gains of Rs1bn in the plastic piping segment, b) higher growth of VAPs, and c) operating leverage. Going forward, we expect SIL's overall EBITDA margin to improve structurally over the next 2-3 years driven by: 1) expected increase in the share of VAPs in its plastic piping (tanks, bath fittings, plumbing valves, CPVC pipe systems, etc.), 2) packaging product segments (higher growth traction, particularly in SILPAULIN), and 3) sustained cost control measures.
- Consolidated PAT rises 284% YoY to Rs4.5bn (I-Sec: Rs2.5bn):** Better than expected inventory gains led to a strong beat in core PAT at Rs3.8bn (I-Sec: Rs2.3bn). Increase in consolidated PAT was led by sharp improvement in profitability of Supreme Petrochem.

Market Cap	Rs267.8bn/US\$3.6bn	<b>Year to Mar</b>	<b>FY20</b>	<b>FY21P</b>	<b>FY22E</b>	<b>FY23E</b>
Reuters/Bloomberg	SUPI.BO/SI IN	Revenue (Rs mn)	55,115	63,571	67,752	76,804
Shares Outstanding (mn)	127.0	Rec. Net Income (Rs mn)	4,362	8,321	6,838	8,048
52-week Range (Rs)	2174/875	EPS (Rs)	34.3	65.5	53.8	63.4
Free Float (%)	51.1	% Chg YoY	18.8	90.8	(17.8)	17.7
FII (%)	17.0	P/E (x)	61.4	32.2	39.2	33.3
Daily Volume (US\$/'000)	2,729	CEPS (Rs)	53.0	93.8	88.9	102.5
Absolute Return 3m (%)	10.1	EV/E (x)	32.3	20.3	22.7	19.4
Absolute Return 12m (%)	92.7	Dividend Yield (%)	0.7	1.0	1.1	1.1
Sensex Return 3m (%)	(3.1)	RoCE (%)	23.9	35.1	25.5	25.5
Sensex Return 12m (%)	44.5	RoE (%)	21.2	36.0	26.0	25.7

Please refer to important disclosures at the end of this report

**Table 1: Q4FY21 result review**

(Rs mn, year ending March 31)

	Q4FY21A	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Net Sales</b>	<b>20,846</b>	<b>19,724</b>	<b>14,305</b>	<b>45.7</b>	<b>18,438</b>	<b>13.1</b>	<b>63,571</b>	<b>55,115</b>	<b>15.3</b>
<b>Total Op. Income</b>	<b>20,846</b>	<b>19,724</b>	<b>14,305</b>	<b>45.7</b>	<b>18,438</b>	<b>13.1</b>	<b>63,571</b>	<b>55,115</b>	<b>15.3</b>
<b>Expenditure</b>	<b>15,749</b>	<b>16,133</b>	<b>11,571</b>	<b>36.1</b>	<b>14,422</b>	<b>9.2</b>	<b>50,728</b>	<b>46,770</b>	<b>8.5</b>
Raw Materials	12,744	12,623	8,481	50.3	11,610	9.8	40,385	35,783	12.9
Staff Cost	931	860	742	25.5	813	14.5	3,104	2,766	12.2
Other Expenditure	2,074	2,650	2,347	(11.7)	1,999	3.7	7,240	8,221	(11.9)
<b>Operating Profit</b>	<b>5,097</b>	<b>3,591</b>	<b>2,734</b>	<b>86.4</b>	<b>4,016</b>	<b>26.9</b>	<b>12,843</b>	<b>8,345</b>	<b>53.9</b>
<b>OPM (%)</b>	<b>24.5</b>	<b>18.2</b>	<b>19.1</b>	<b>540bps</b>	<b>21.8</b>	<b>270bps</b>	<b>20.2</b>	<b>15.1</b>	<b>510bps</b>
Other Income	37	1	1	6,000.0	3	1,364.0	43	14	198.6
Interest	5	-10	42	(89.1)	-12	(137.1)	95	202	(52.9)
Depreciation	548	580	529	3.7	549	(0.2)	2,128	2,057	3.5
<b>PBT</b>	<b>4,581</b>	<b>3,022</b>	<b>2,164</b>	<b>111.7</b>	<b>3,481</b>	<b>31.6</b>	<b>10,662</b>	<b>6,101</b>	<b>74.8</b>
Exceptional Income	0	0	0		0		0	0	
Tax on above	0	0	0		0		0	0	
<b>PBT post exceptional income</b>	<b>4,581</b>	<b>3,022</b>	<b>2,164</b>	<b>111.7</b>	<b>3,481</b>	<b>31.6</b>	<b>10,662</b>	<b>6,101</b>	<b>74.8</b>
Tax	781	740	1,061	(26.4)	886	(11.9)	2,341	1,739	34.6
<b>PAT</b>	<b>3,800</b>	<b>2,282</b>	<b>1,103</b>	<b>244.5</b>	<b>2,595</b>	<b>46.5</b>	<b>8,321</b>	<b>4,362</b>	<b>90.8</b>
Share of Associate	703	259	70	909.2	528	33.2	1,460	312	367.9
<b>Reported PAT</b>	<b>4,504</b>	<b>2,541</b>	<b>1,173</b>	<b>284.0</b>	<b>3,123</b>	<b>44.2</b>	<b>9,781</b>	<b>4,674</b>	<b>109.3</b>
<b>Core PAT</b>	<b>3,800</b>	<b>2,282</b>	<b>1,103</b>	<b>244.5</b>	<b>2,595</b>	<b>46.5</b>	<b>8,321</b>	<b>4,362</b>	<b>90.8</b>
<b>Adjusted Consol PAT</b>	<b>4,504</b>	<b>2,541</b>	<b>1,173</b>	<b>284.0</b>	<b>3,123</b>	<b>44.2</b>	<b>9,781</b>	<b>4,674</b>	<b>109.3</b>
<b>NPM (%)</b>	<b>21.6</b>	<b>12.9</b>	<b>8.2</b>	<b>1340bps</b>	<b>16.9</b>	<b>470bps</b>	<b>15.4</b>	<b>8.5</b>	<b>690bps</b>
<b>Reported EPS</b>	<b>35.4</b>	<b>23.6</b>	<b>9.2</b>	<b>284.0</b>	<b>24.6</b>	<b>44.2</b>	<b>77.0</b>	<b>36.8</b>	<b>109.3</b>
<b>Adjusted EPS - Consolidated</b>	<b>35.4</b>	<b>23.6</b>	<b>9.2</b>	<b>284.0</b>	<b>24.6</b>	<b>44.2</b>	<b>77.0</b>	<b>36.8</b>	<b>109.3</b>
<b>Adjusted EPS - Core Operations</b>	<b>29.9</b>	<b>18.0</b>	<b>8.7</b>	<b>244.5</b>	<b>20.4</b>	<b>46.5</b>	<b>65.5</b>	<b>34.3</b>	<b>90.8</b>
Volumes	1,11,238	1,03,200	1,03,200	7.8	1,11,584	(0.3)	4,09,109	4,11,521	(0.6)
Realisation/tonne (Rs)	1,84,200	1,33,721	1,33,721	37.7	1,58,266	16.4	1,50,987	1,31,439	14.9
EBIDTA/tonne (Rs)	45,824	34,799	26,495	73.0	35,987	27.3	31,391	20,279	54.8
PAT/tonne (Rs)	34,165	22,115	10,689	219.6	23,255	46.9	20,341	10,599	91.9

Source: Company data, I-Sec research

**Table 2: Revenue breakup**

(Rs mn, year ending March 31)

	Q4FY21A	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Plastic Products	20,490	13,800	48.5	17,660	16.0	61,770	54,090	14.2
Others	356	505	(29.5)	778	(54.3)	1,801	1,025	75.6
<b>Total</b>	<b>20,846</b>	<b>14,305</b>	<b>45.7</b>	<b>18,438</b>	<b>13.1</b>	<b>63,571</b>	<b>55,115</b>	<b>15.3</b>

Source: Company data, I-Sec research

**Table 3: Change in estimates**

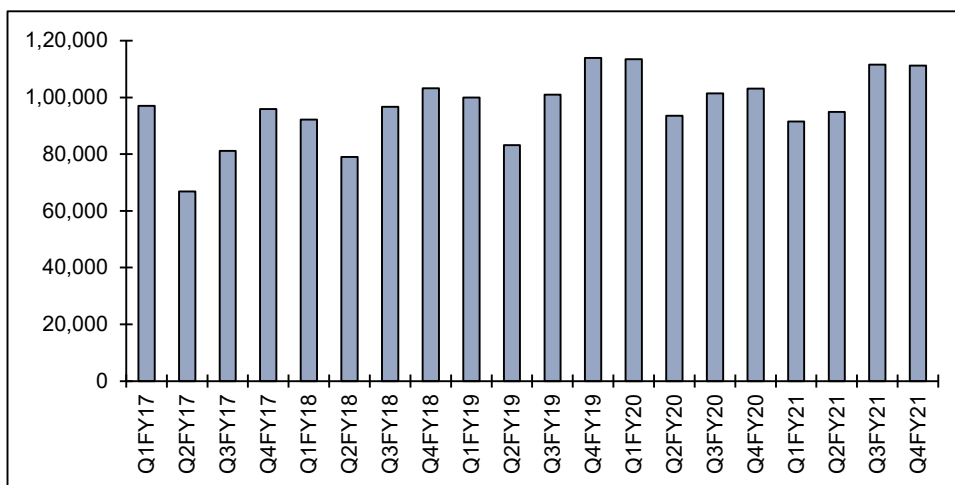
(Rs mn, year ending March 31)

	Old		New		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	68,815.4	78,396.2	67,752.3	76,803.7	-1.5%	-2.0%
EBITDA	11,074.3	12,677.6	11,487.7	13,369.3	3.7%	5.5%
PAT	7,107.0	8,178.5	8,938.3	10,420.7	25.8%	27.4%
EPS	55.9	64.4	70.4	82.0	25.9%	27.4%
EBIDTA margins	16.1%	16.2%	17.0%	17.4%	90bps	120bps

Source: I-Sec research

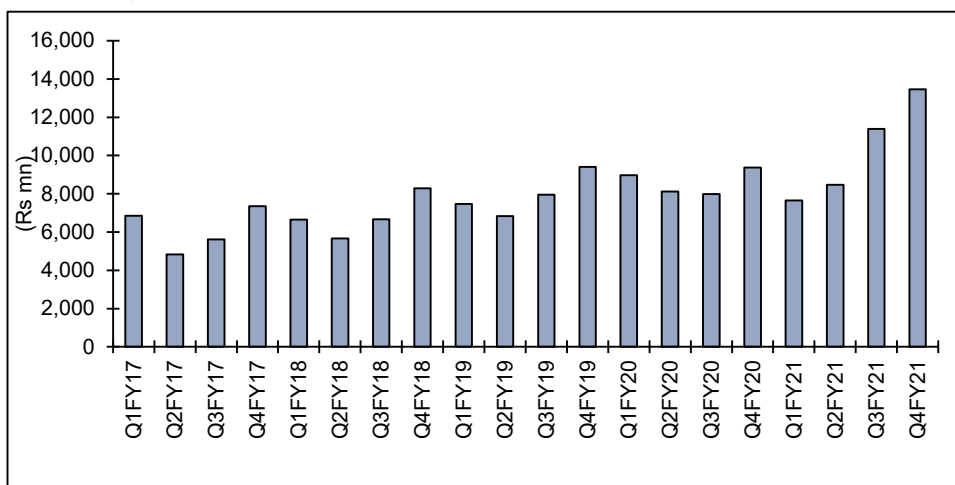
**Chart 1: Quarter-wise trend in overall volumes over past five years**

(te)



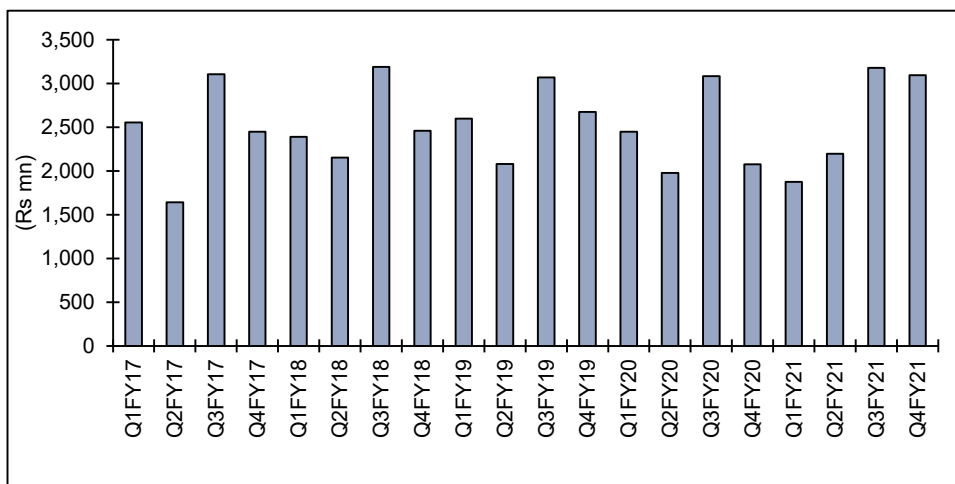
Source: Company data, I-Sec research

**Chart 2: Quarter-wise trend in plastic piping revenues over past five years**



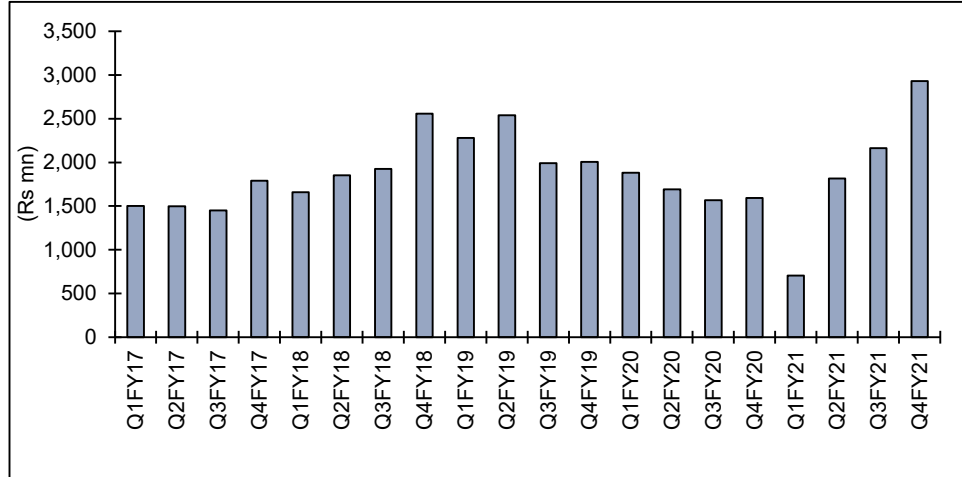
Source: Company data, I-Sec research

**Chart 3: Quarter-wise trend in packaging product revenues over past five years**



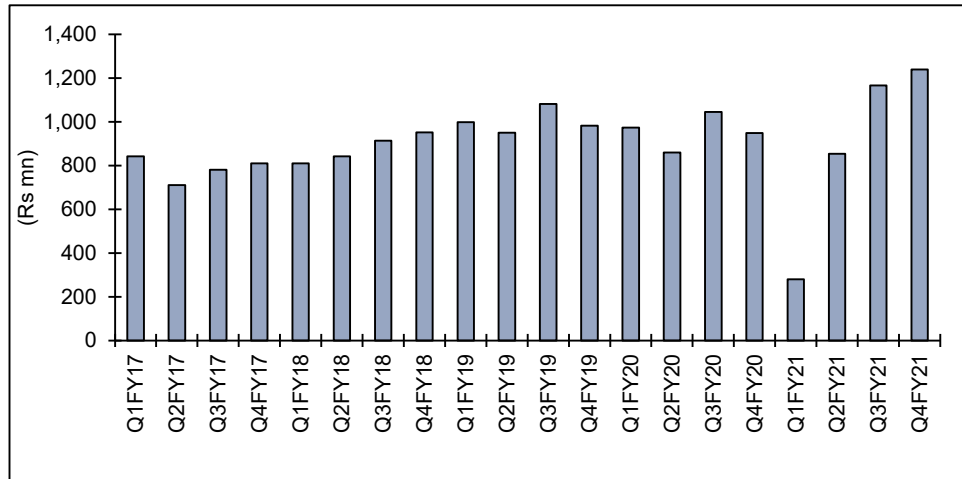
Source: Company data, I-Sec research

**Chart 4: Quarter-wise trend in industrial product revenues over past five years**



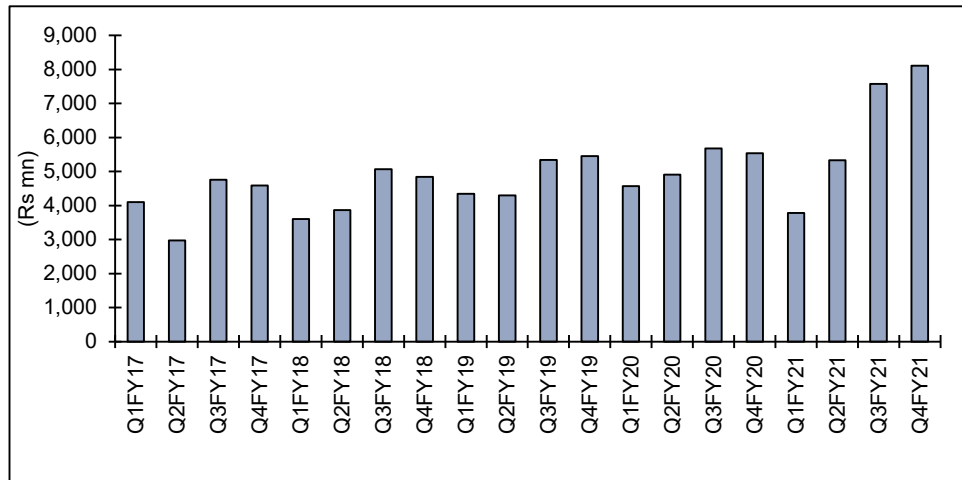
Source: Company data, I-Sec research

**Chart 5: Quarter-wise trend in consumer product revenues over past five years**



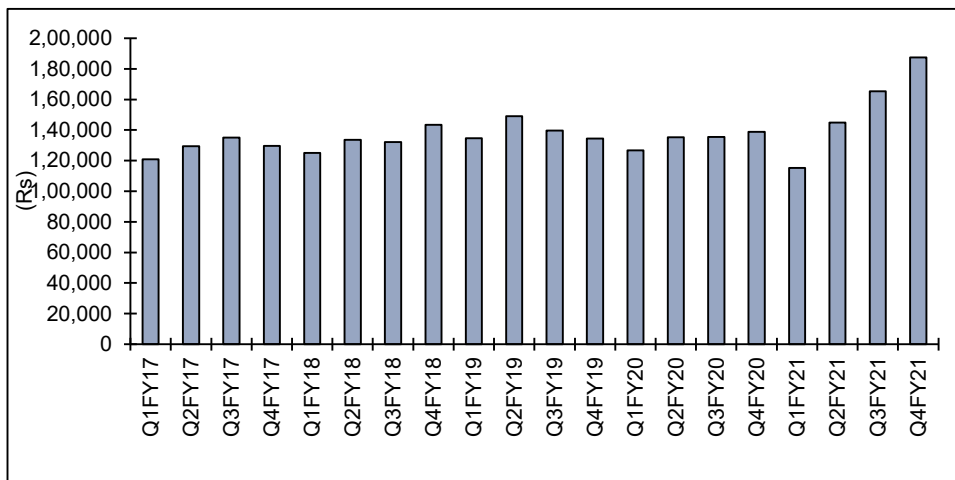
Source: Company data, I-Sec research

**Chart 6: Quarter-wise trend in VAP revenues over past five years**



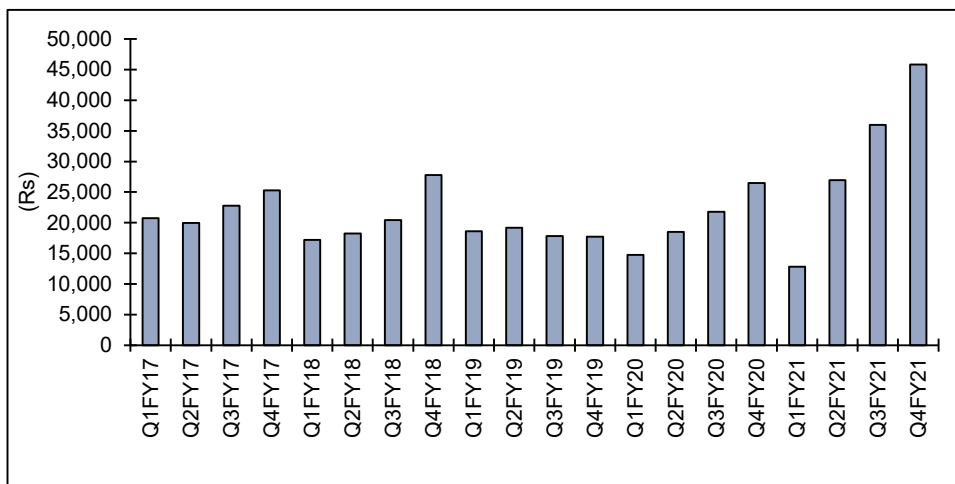
Source: Company data, I-Sec research

**Chart 7: Quarter-wise trend in realisation/te over past five years**



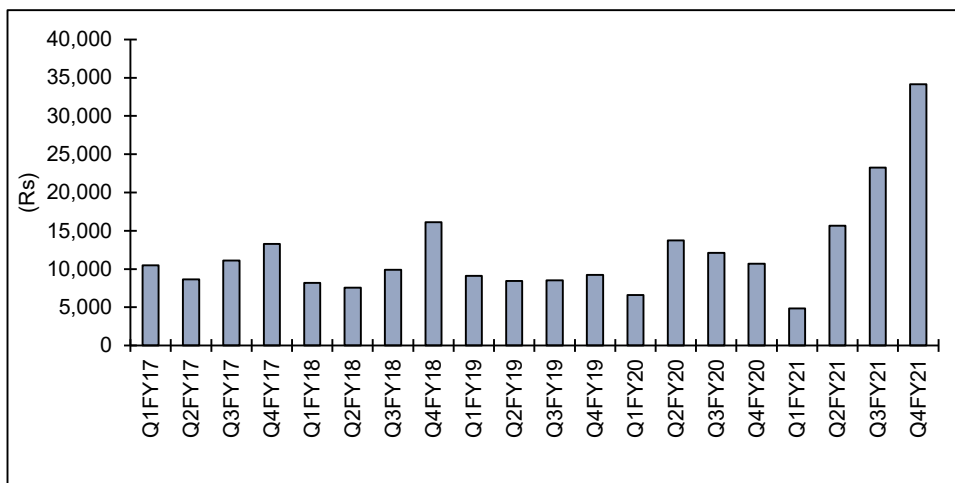
Source: Company data, I-Sec research

**Chart 8: Quarter-wise trend in EBIDTA/te over past five years**



Source: Company data, I-Sec research

**Chart 9: Quarter-wise trend in PAT/te over past five years**



Source: Company data, I-Sec research

## Key takeaways from Q4FY21 management interaction, segment-wise

### Plastic piping segment

- Segmental volumes/value grew -1.7%/43.7% YoY in Q4FY21.
- EBITDA margin stood at 27.1% vs 20.6% YoY.
- Overall Inventory gain for Q4FY21 stood at Rs1bn vs Rs2bn for FY21.
- Company expects PVC resin prices to go down in the near term.
- Demand was driven mainly by the housing segment as agri pipe demand was weak during the quarter. It picked up in Apr'21 as pre-monsoon demand is nearing. However, it still remains below normal levels due to the pandemic.
- Company has started seeing an impact on its overall volume growth, particularly post 20<sup>th</sup> Mar'21, due to increase in covid cases.
- **CPVC** pipe revenues grew by 3.7% in FY21 as against a decline of 11.4% in FY21 for industry.
- While PVC pipe industry declined 15-16% in FY21, the company gained significant market share in the segment.
- **New product launches:** SIL has intensified its focus on: 1) *Nal se Jal* related products like moulded fittings, etc., 2) bath fittings, 3) PEX pipes, and 4) plumbing valves.
- **Tanks:** SIL currently has a capacity of 20,000mtpa in tank segment and is likely to add further capacity.

### Packaging product segment

- Segment volumes/value grew 40.2%/49.2% YoY respectively in Q4FY21.
- EBITDA margin stood at 15.8% vs 21.1% YoY on a high base of last year.
- Cross laminated film products demand is likely to improve in FY22 with expectations of normal monsoon and likely increase in its capacity to 30,000mtpa from 27,000mtpa.
- Export thrust in the coming years will be mainly on developing newer applications and entering new markets while targeting chain stores and supermarkets for sale through online portals.
- In protective packaging division, growth has picked up in the civil and export sectors. New variant of interlock mat for various sport applications has been developed using recycled material. Company expects good business in FY22.
- Performance packaging film, being part of an intermediary to essential products category, has done well particularly in dairy and oil industries. With available production capacity, improved product mix and focus on increasing customer base, company expects to achieve volume and value growth in this business in the current year.

- SILPAULIN STAR performed well during the year and has received good response while *Biofloc* is facing some technical issues, which will be resolved soon.

### Industrial product segment

- This segment grew by 45.2%/84% YoY in volume/value terms respectively in Q4FY21.
- EBITDA margin stood at 16.6% vs 14.1% YoY.
- Business conditions of the industrial component division are not clear amid huge surge in covid cases. However, the company expects the business scenario to remain bullish in the medium to long term.
- Company has thus planned need-based capacity augmentation to handle the projected increase in demand going forward.

### Consumer product segment

- Segment volumes/value grew by 11.9%/30.6% YoY respectively in Q4FY21.
- EBITDA margin stood at 25.2% vs 24.2% YoY led by higher sales of value-added products (VAPs).
- Company's furniture range is sold on various e-commerce portals through a few dedicated channel partners. Its e-commerce business grew 100% during FY21 and consumer behaviour during the year showed a major shift towards online shopping.
- Company, along with its channel partners, geared up its infrastructure to meet the sudden rise in demand. It is focused on increasing its online presence and product offerings and sees this as a future growth driver.

### Others

- **Revenue from VAPs** grew 46.4% YoY in Q4FY21. VAP share, as a percentage of overall revenues, stood at 40.1% in FY21 vis-à-vis 38.3% YoY. Company strives to achieve better growth in VAP sales going forward.
- SIL has cash surplus funds of Rs7.6bn as at 31st Mar'21 against net borrowings of Rs2.2bn as at 31st Mar'20.
- **Capex:** Company has incurred capex of Rs3.4bn in FY21. It expects Rs4bn capex in FY22 including the Rs2bn already committed.
- Currently, SIL is also putting up **new plants at three locations**. Land for these plants have been acquired in Odisha and Tamil Nadu. In Assam, the plant is being constructed on a lease agreement basis. Company aims to put all these new plants in production in FY22.
- **Capacity:** Plastic piping: 509,000tpa; industrial product segment: 72,000tpa; packaging product segment: 86,000tpa; consumer product segment: 30,000tpa. This totals to 697,000tpa as at Mar'21 and is expected to increase by 40,000mtpa by FY22-end, which is not counting new plants of Odisha and Tamil Nadu.
- Company will continue to focus on expansion and new products with incremental FCF generation.

- **Supreme Petrochem.** Capacity utilisation at this subsidiary is running at 100%, hence it has announced incremental capacity of 120,000mtpa in polystyrene, which is expected to get commissioned between Dec'21 and Mar'22. Currently, demand is low in Apr'21 and May'21, but prices remain high, which will continue to benefit in the short term. Also, export demand remains high. The capex for expansion will be at Rs2.6bn.



## Financial summary

Table 4: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Net Revenues</b>	<b>55,115</b>	<b>63,571</b>	<b>67,752</b>	<b>76,804</b>
<b>Operating Expenses</b>	<b>46,770</b>	<b>50,728</b>	<b>56,265</b>	<b>63,434</b>
<b>EBITDA</b>	<b>8,346</b>	<b>12,842</b>	<b>11,488</b>	<b>13,369</b>
% margins	15.1%	20.2%	17.0%	17.4%
Depreciation & Amortisation	2,057	2,128	2,357	2,596
Gross Interest	202	95	26	51
Other Income	14	43	30	30
<b>Recurring PBT</b>	<b>6,101</b>	<b>10,662</b>	<b>9,135</b>	<b>10,753</b>
Less: Taxes	1,739	2,341	2,298	2,704
Less: Minority Interest	-	-	-	-
Add: Share of profit from associates	312	1,460	2,100	2,372
Add: Extraordinary Income (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>4,674</b>	<b>9,781</b>	<b>8,938</b>	<b>10,421</b>
<b>Recurring core business income</b>	<b>4,362</b>	<b>8,321</b>	<b>6,838</b>	<b>8,048</b>

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	17,106	21,804	24,458	29,048
of which cash & cash eqv.	2,314	7,684	7,408	9,577
Total Current Liabilities & Provisions	8,135	10,206	9,768	10,475
<b>Net Current Assets</b>	<b>8,971</b>	<b>11,599</b>	<b>14,691</b>	<b>18,573</b>
Investments	2,073	3,366	5,394	7,598
Net Fixed Assets	16,077	17,145	18,538	19,443
Capital Work-in-Progress	929	508	-	-
Goodwill	-	-	-	-
<b>Total Assets</b>	<b>28,050</b>	<b>32,617</b>	<b>38,623</b>	<b>45,614</b>
<b>Liabilities</b>				
Borrowings	4,113	6	600	850
Deferred Tax Liability	1,326	919	919	919
Minority Interest	-	-	-	-
Equity Share Capital	254	254	254	254
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus*	22,358	31,438	36,850	43,591
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	<b>22,612</b>	<b>31,692</b>	<b>37,104</b>	<b>43,845</b>
<b>Total Liabilities</b>	<b>28,050</b>	<b>32,617</b>	<b>38,623</b>	<b>45,614</b>

\*Excluding revaluation reserves

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	Jun-20	Sep-20	Dec-20	Mar-21
Net revenues	10,539	13,748	18,438	20,846
% growth (YoY)	(26.7)	8.2	34.3	45.7
EBITDA	1,171	2,559	4,016	5,097
Margin (%)	11.1	18.6	21.8	24.5
Other income	3	1	3	37
Extraordinaries (Net)	-	-	-	-
Net profit	405	1,750	3,123	4,504

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Operating Cashflow</b>	<b>4,896</b>	<b>14,003</b>	<b>11,295</b>	<b>13,016</b>
Working Capital Changes	(996)	2,743	(3,369)	(1,714)
Capital Commitments	(2,573)	(2,774)	(3,242)	(3,500)
<b>Free Cashflow</b>	<b>1,326</b>	<b>13,971</b>	<b>4,684</b>	<b>7,803</b>
<b>Cashflow from Investing Activities</b>	<b>151</b>	<b>(1,293)</b>	<b>(2,028)</b>	<b>(2,204)</b>
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	2,489	(4,107)	594	250
Dividend paid	(2,147)	(2,795)	(3,526)	(3,680)
<b>Change in Deferred Tax Liability</b>	<b>122</b>	<b>(406)</b>	<b>-</b>	<b>-</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>1,941</b>	<b>5,370</b>	<b>(276)</b>	<b>2,169</b>

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Per Share Data (Rs)</b>				
Reported Con. EPS	36.8	77.0	70.4	82.0
Core business EPS	34.3	65.5	53.8	63.4
Cash EPS	53.0	93.8	88.9	102.5
Dividend per share (DPS)	14.0	22.0	23.0	24.0
Book Value per share (BV)	178.0	249.5	292.1	345.2
<b>Growth (%)</b>				
Net Sales	-1.8	16.3	6.6	13.4
EBITDA	6.4	53.9	-10.5	16.4
Core business PAT	18.8	90.8	-17.8	17.7
Reported Consolidated PAT	0.9	109.3	-8.6	16.6
Cash EPS	19.1	76.9	-5.2	15.2
<b>Valuation Ratios (x)</b>				
P/E	61.4	32.2	39.2	33.3
P/CEPS	39.8	22.5	23.7	20.6
P/BV	11.8	8.5	7.2	6.1
EV / EBITDA	32.3	20.3	22.7	19.4
EV / Sales	4.9	4.1	3.9	3.4
<b>Operating Ratios</b>				
Raw Material / Sales (%)	62.3	65.9	63.8	63.6
Employee cost / Sales (%)	5.1	4.9	4.6	4.6
SG&A / Sales (%)	9.0	9.0	8.8	8.6
Other Income / PBT (%)	0.2	0.4	0.3	0.3
Effective Tax Rate (%)	21.6	22.0	25.2	25.2
Working Capital (days)	43.8	29.0	36.0	38.0
Inventory Turnover (days)	59.5	43.7	48.0	48.0
Receivables (days)	20.9	22.4	25.0	26.0
Payables (days)	36.6	37.1	37.0	36.0
Net D/E Ratio (x)	0.1	-0.2	-0.2	-0.2
<b>Return/Profitability Ratios (%)</b>				
Net Income Margins	8.6	15.4	13.2	13.6
RoACE	23.9	35.1	25.5	25.5
RoAE	21.2	36.0	26.0	25.7
Dividend Payout	45.9	28.6	39.5	35.3
Dividend Yield	0.7	1.0	1.1	1.1
EBITDA Margins	15.1	20.2	17.0	17.4

Source: Company data, I-Sec research

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